What

What are internal controls?

- Internal controls mitigate risk by ensuring that financial information is properly and accurately recorded and reported, and provide reasonable assurance that potential misstatements, losses, or noncompliance with applicable laws and regulations would be prevented or detected
- Internal controls prevent errors and detect fraud, waste and abuse of an entity's resources
- Some processes contain many internal controls. If a control is not properly performed, it may affect other controls later in the process

Examples of Internal Controls	
Non-Financial	**Financial**
Safeguarding personally identifiable information (PII)	Reviewing and approving timesheets (Manual)
Managing communications security equipment	Reviewing Travel Card / P-card expenses on a regular basis (Manual)
Implementing learned value management across the Department of the Navy (DON) shipbuilding programs	Obtaining signatures from Grantor and Performer on NC-2275s (Manual)
Limiting hazardous noise in acquisition and weapon system design	Performing a three-way match (Automated by DFAS)

Why

Why are internal controls important to audit readiness?

- Internal controls are vital components of the management of an entity's operations. They provide reasonable assurance that the following objectives are being achieved:
    - Effectiveness and efficiency of operations
    - Reliability of financial reporting
    - Compliance with applicable laws and regulations
- Financial auditors collect evidence supporting the fair presentation of financial statement values by focusing on internal controls and supporting documentation
    - The more reliance an auditor can place on an entity's internal controls, the fewer transactions they will have to test; in other words, strong internal controls may minimize the amount of transaction testing performed by an auditor
- It makes good business sense to have an effective internal control environment
- The DON must submit an annual report, called a Statement of Assurance (SOA), that certifies the level of reasonable assurance as to the overall adequacy and effectiveness of internal controls within the Department

When

When do internal controls need to be in place?

- At all times. There are many laws and regulations that require entities to maintain constant, effective internal controls, such as the Federal Managers' Financial Integrity Act (FMFIA) and the Office of Management and Budget (OMB) Circular A-123

How

How does the DON create and monitor internal controls?

- The DON implements FMFIA through its Internal Controls Over Financial Reporting (ICOFR) Program and the Managers' Internal Control (MIC) Program, which focuses on non-financial controls like in the table above
    - The ICOFR Program supports the DON in meeting OMB re-issued *Circular A-123,* which establishes the basis of a certification that financial internal controls are in place and effective
    - The MIC Program supports the DON's personnel in practicing sound internal controls to achieve results and safeguard the integrity of programs

Who

Who is responsible for developing and implementing internal controls?

- The ICOFR and MIC efforts support the DON in meeting all regulatory requirements and ensure that internal controls are in place and operating effectively
- For ICOFR, the Office of Financial Operations (FMO) facilitates the completion of necessary process flowcharts, narratives, risk assessments, control analyses, and test plans for financial statement focus areas, which are required by the OMB Circular A-123 Appendix A
- For MIC, FMO develops and offers training to coordinators and managers across the department so that they can act as proper stewards of federal resources
- Entity managers are responsible for continuously monitoring and improving the effectiveness of internal controls associated with their programs. Managers and employees should identify and report internal control deficiencies to the next supervisory level, which will allow the chain of command to determine the importance of each deficiency

Who is responsible for complying with Internal Controls?

- All personnel perform operations governed by internal controls and are responsible for complying with them

Where

Additional information on internal controls can be found via the following links:
http://www.fmo.navy.mil/AuditReadiness/audit_readiness_information_center.html
http://www.whitehouse.gov/sites/default/files/omb/assets/omb/circulars/a123/a123_rev.pdf